

# **REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON IMBABAZANE MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the Imbabazane Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting Officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-General's responsibility**

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Imbabazane Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

## **Additional matter**

7. I draw attention to the matter below. My opinion is not modified in respect of this matter:

## **Unaudited supplementary schedules**

8. The supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

9. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

## **Predetermined objectives**

10. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report, as set out on pages xx to xx of the annual report.
11. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

The material findings are as follows:

### **Usefulness of information**

#### **Presentation**

12. Measures to improve performance for all the planned targets not achieved were not disclosed in the annual performance report, as required by section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA). This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

#### **Consistency**

13. All of the indicators and targets were not consistent with the indicators and targets as per the approved annual performance report relative to the integrated development plan (IDP) as required by section 41(1)(c) of the MSA. This was due to non-compliance with the MSA.

#### **Additional matter**

14. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

#### **Achievement of planned targets**

15. Of the total number of 28 targets planned for the year under review, six targets were not achieved, representing 21% of total planned targets. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

### **Compliance with laws and regulations**

16. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

#### **Annual financial statements**

17. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of Leases and value added tax identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

#### **Audit committee**

18. The audit committee did not substantially perform its functions for the year, as required by section 166 of the MFMA.

### **Performance audit committee**

19. The performance audit committee was not constituted, as required by regulation 14(2)(a) of the Municipal Planning and Performance Management regulations of 24 August 2001, as it did not include at least one person who has expertise in performance management.

### **INTERNAL CONTROL**

20. I considered internal control relevant to my audit of the financial statements, performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

21. Management did not exercise effective oversight responsibility regarding financial and performance reporting as well as compliance and related internal controls.

### **Financial and performance management**

22. An effective system for monitoring compliance has not been established to prevent non-compliance with laws and regulations.
23. Management did not maintain an effective and efficient system of recording, reporting and monitoring of performance against predetermined objectives.

### **Governance**

24. The audit committee has not substantially fulfilled its oversight responsibilities.

*Auditor General*

Pietermaritzburg

30 November 2012



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